



VIRGINIA LOTTERY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Lottery as of and for the year ended June 30, 2021, and issued our report thereon, dated December 15, 2021. Our report is included in the Virginia Lottery's Annual Report that it anticipates releasing in January 2022.

Our audit of the Virginia Lottery for the year ended June 30, 2021, found:

- the financial statements are presented fairly, in all material respects;
- one internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve the Financial Reporting Process

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The Virginia Lottery's (Lottery) finance division lacks sufficient financial reporting expertise to appropriately research a changing financial reporting structure and apply the applicable accounting standards to timely and accurately compile Lottery's Annual Financial Report. In fiscal year 2021, Lottery assumed responsibility for regulating sports betting activity in the Commonwealth. With this new undertaking, Lottery's historical financial reporting structure required significant modifications, including the addition of entity-wide and governmental fund financial statements and the related note disclosures to reflect the new gaming activity. As a result of the finance division's lack of financial reporting expertise, we found numerous amounts included on the financial statements requiring adjustment, inadequate footnote disclosures, and multiple instances where the presentation of the governmental fund and entity-wide financial statements did not align with generally accepted accounting principles (GAAP).

GAAP consist of uniform minimum standards and guidelines for financial accounting and reporting in governmental environments. Per Section 1200, paragraph .101 of the Governmental Accounting Standards Board (GASB) Codification, adherence to GAAP assures that financial reports of all state and local governments contain the same types of financial statements and disclosures, for the same categories and types of funds and activities, based on the appropriate measurement and classification criteria. Management is responsible for assuring they have sufficient internal controls and resources in place to ensure the fair presentation of the financial statements in adherence with GAAP. In the fall of fiscal year 2020, Lottery communicated with the Auditor of Public Accounts (APA) and the Department of Accounts (Accounts) to gain insight on the financial reporting requirements associated with the new gaming regulatory activity. However, after numerous discussions with Accounts and APA, which included the distribution of standard guidance and examples for Lottery to model their statements after, Lottery's finance division did not prepare financial statements in accordance with GAAP.

Financial accounting and reporting standards are constantly evolving and have become more complex in recent years. The increase in complexity and pace of change makes it more difficult for staff who function in a split operations and financial reporting capacity to keep up to date on current standards. Lottery's lack of staff with familiarity of financial reporting requirements for governmental fund activity and the ability to research, interpret, and apply applicable GAAP guidance contributed to the numerous adjustments found during the audit. Lottery's finance division should consider creating a dedicated financial reporting resource to assist with its financial reporting functions throughout its various divisions including researching accounting issues, educating staff, coordinating with Accounts, and preparing year-end financial statements.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

Virginia Lottery Board
Virginia Lottery

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the major enterprise fund, and the remaining fund information of the **Virginia Lottery** as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Virginia Lottery's basic financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia Lottery's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Virginia Lottery's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control titled “Improve the Financial Reporting Process,” which is described in the section titled “Internal Control Finding and Recommendation,” that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia Lottery’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Virginia Lottery’s Response to the Finding and Recommendation

We discussed this report with management at an exit conference held on January 5, 2022. The Virginia Lottery’s response to the finding and recommendation identified in our audit is described in the accompanying section titled “Virginia Lottery Response.” The Virginia Lottery’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

LDJ/clj



VIRGINIA LOTTERY

RALPH S. NORTHAM, GOVERNOR | **KEVIN HALL**, EXECUTIVE DIRECTOR
600 E. Main St. | Richmond, VA 23219 | 804.692.7100 | khall@valottery.com



GAMING COMPLIANCE

January 7, 2022

Ms. Staci A. Henshaw, CPA
The Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Re: Virginia Lottery Fiscal Year 2021 Internal Control Report

Dear Ms. Henshaw:

Thank you for the opportunity to respond to the annual audit of the Virginia Lottery for the year ended June 30, 2021. I appreciate the thorough work of your team and the APA's recommendations.

During FY21, the Lottery posted record high sales and profits for the Lottery Proceeds Fund as a result of our ongoing focus on retail operations and the successful launch of iLottery online sales on July 1, 2020. In addition, the Lottery was assigned significant new responsibilities in creating a regulatory program for mobile sports betting and casino gaming, including initial licensing and ongoing regulatory oversight as well as responsibility for tax collections associated with these new governmental fund activities, all implemented in the fiscal year. As you noted in your finding, this required significant changes to the Lottery's overall financial operations, including implementation of a cost allocation methodology for the shared services supporting both the Lottery business and the agency's new regulatory operations.

As a result of these changes, and in recognition that additional expertise and resources are necessary to carry out these significantly expanded responsibilities, I have approved specific organizational modifications and authorized additional resources to meet these needs. In the interim, we engaged consulting services through an external CPA firm while the APA audit review was underway to help provide many of these services. Active recruitment for the hiring of a new Controller position to lead the financial reporting responsibilities at the Lottery currently is underway and we expect this key resource to be on board before the end of March 2022.

The Lottery remains diligently committed to continuous improvement, integrity, and effective accountability over all of our business functions, including the Lottery's significant new responsibilities in the oversight of expanded forms of legal gaming.

Sincerely,

Kevin Hall

VIRGINIA LOTTERY

For the year ended June 30, 2021

Kevin Hall
Executive Director

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